

## Briefs

## Livestock, Dairy, &amp; Poultry

## Rising Milk Production Restrains Prices

Gains in milk production appear to be overtaking strong demand for dairy products as prices slid in recent months. Farm-level milk prices in 1999 are projected to fall an average 7 percent from 1998's record, a very moderate decline given the large rise in production. Mid-November cheese prices had plunged almost 45 percent from the late-August record. However, this drop, like the preceding price peak, may be an overreaction, and cheese prices may recover slightly.

July-September milk cow numbers interrupted a fairly constant trend by posting an unusual increase from a year earlier, even if the rise was only fractional. Relatively strong returns to milk production over the last 3-4 years have encouraged financially stronger producers to expand and have modestly slowed the exit of weaker farmers. The most dramatic effect has been in the West, where recent strong returns, ample supplies of alfalfa hay, and lower priced concentrate feeds have supported a substantial increase in milk cow numbers.

Summer milk production rose more than 3 percent from a year earlier. Milk per cow was boosted 3 percent by very favorable milk-feed price ratios, although the gains came from a relatively weak quarter of 1998. Producers had ample incentive to push milk per cow with additional feeding of grains and other concentrates. Alfalfa hay of mediocre quality was plentiful and much cheaper than in recent years, and significant weather stress was relatively uncommon.

Milk output expansion is expected to continue through 2000. Ample feed and the returns of recent years may sustain the growth, although lower milk prices and uncertainties related to government program changes are projected to slow production increases slightly. Milk production is expected to grow 2 percent in 2000, following a 3-percent rise this year.

Sales of dairy products, particularly cheese, continue to grow briskly despite sharply higher prices since mid-1998. Most of this demand strength can be attributed to brisk growth in the general economy and in consumer incomes. However, recent demand growth may have another catalyst. Dairy demand in 1996 and 1997 did not meet expectations generated by overall economic growth, and demand during the last 2 years may be catching up with economic growth that spans a longer period.

Dairy demand should stay strong so long as the economy continues to grow and consumer spending is brisk. During the rest of 1999 and in 2000, commercial use of dairy products is expected to grow substantially at prices above most of those in the 1990's. Restaurant use, sales of premium products using dairy ingredients, and sales for entertaining (such as cheeses and dips) may be particularly strong.

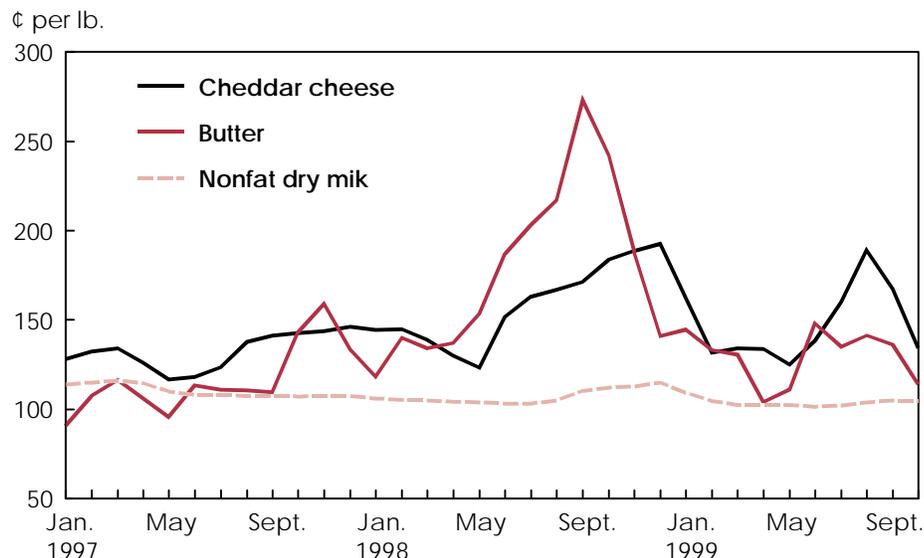
Nonfat dry milk contracts under the Dairy Export Incentive Program (DEIP) were heavy this spring and summer. Essentially all of the reallocated tonnage from earlier

years has been filled, plus more than half the allocations for the July 1999-June 2000 year. Many recent bids have been for smaller bonuses (subsidies) than earlier in the year, even though domestic and international prices have changed little. Some buyers who prefer buying from the U.S. may have wanted to ensure getting their share of this year's rapidly dwindling DEIP allocations.

Brisk DEIP exports were not enough to clear the surplus of nonfat dry milk, and sales to USDA under the price support program continue. During the marketing year that ended in September, net government purchases totaled 172 million pounds. Total net removals for price support, including DEIP removals, amounted to about 450 million pounds. The price-support purchase program, once scheduled to end with 1999, was recently extended for 1 more year. The nonfat dry milk surplus in 2000 probably will be similar to this year's—with sizable removals of nonfat dry milk but very little removals of cheese or butter.

In the wake of substantial growth in both milk production and demand, large swings in milk and milk product prices have been triggered this year by relatively minor adjustments in pipeline stocks and price expectations. Cheese prices shot

## Cheese and Butter Prices Have Been Volatile in the Last 2 Years



from about \$1.20 per pound (40-pound blocks of Cheddar on the Chicago Mercantile Exchange) in mid-May to \$1.97 in late August, mostly because of rising cheese sales and concerns about inadequate pipeline stocks to meet second-half needs, augmented by fears of low warehouse stocks. Memories of 1998 experiences with short supplies and high prices may have prompted some buyers to

be particularly aggressive about ensuring full supplies in advance. Once the concerns started to ease, cheese prices dropped to mid-November's \$1.12.

Dairy production gains likely will exceed demand growth during the remainder of 1999 and into early 2000, generating farm milk prices much below those of a year earlier or last summer. However, prices

may remain volatile. The price decrease in 2000 probably will be larger than 1999's, with prices possibly dipping 8 to 12 percent. First-half prices in 2000 will be somewhat weak. During the second half of 2000, prices are forecast to recover as increases in milk production start to abate and demand growth remains firm. **AO**

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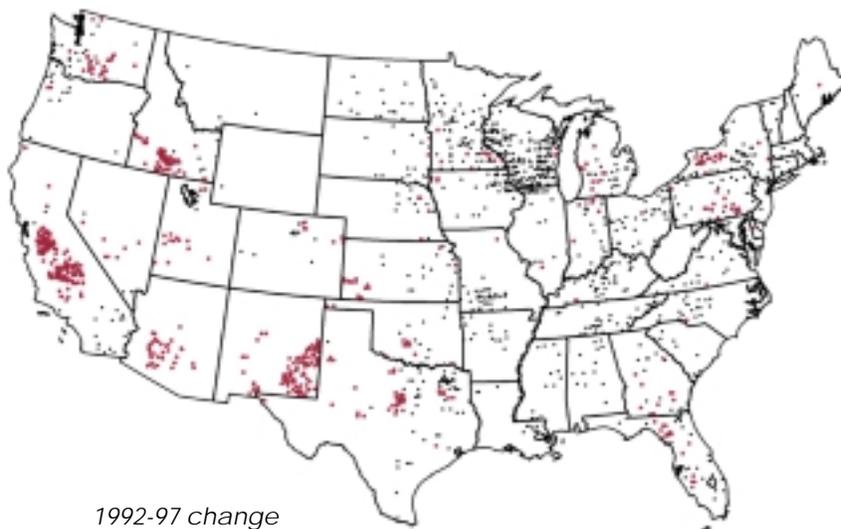
**Ag Industry Snapshot**

**Geographic Concentration of the U.S. Dairy Industry**

The West has seen a fairly steady increase in milk cow numbers during the last 20 years, unlike the U.S. overall, which has registered a decline. A warm, dry climate and large, dependable supplies of high-quality forage allow many parts of the West to enjoy a cost advantage in milk production.

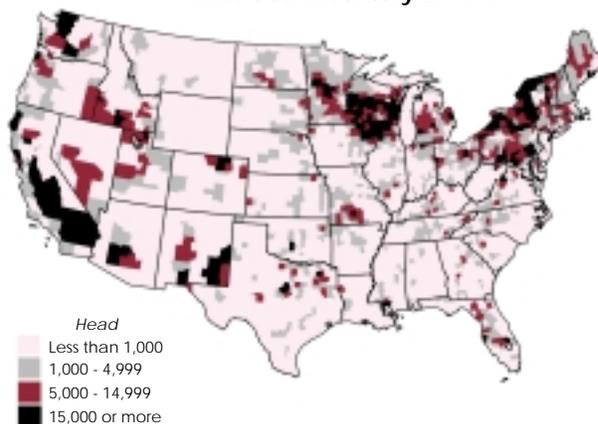
But perhaps more importantly, the region pioneered operations with very large milk cow herds and with tasks divided into highly specialized jobs, resulting in substantial production efficiencies. The approach is being successfully imitated, with some modification, in the northern U.S. Nevertheless, small northern farms continue to leave the industry as farmers find it difficult to earn acceptable family incomes. Farms in the South have had problems competing because of the stress of a humid, hot climate and declining relative costs of transporting milk from the North.

**Milk Cow Inventory Shifts West**



1992-97 change  
 1 Dot = Increase of 1,000 milk cows  
 1 Dot = Decrease of 1,000 milk cows  
 U.S. net decrease = -396,379

**Milk Cow Inventory in 1997**



Head  
 Less than 1,000  
 1,000 - 4,999  
 5,000 - 14,999  
 15,000 or more

Source: 1997 Census of Agriculture, National Agricultural Statistics Service, USDA. Economic Research Service, USDA